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When Did the County's 2007 Deficit Appear?

When Allegheny County received a \$22.4 million payment from the State's Tourism and Economic Development Fund in the afternoon of December 31, 2007, the County Executive claimed that most of the money was needed to plug a large hole in the 2007 budget—a deficit he argues Council had been thoroughly informed about. But if there was a large 2007 deficit looming, why is there no record of it being discussed in either Council meetings or Budget and Finance Committee meetings? Moreover, why had Council not been alerted that the County's Fund Balance reserve might have to be used to fill the budget gap? Transferring funds from the reserve should require Council approval.

A review of the minutes of Council meetings as well as Budget and Finance Committee meetings from October until the end of the year shows no mention of a budget shortfall that might materialize because tax lien sales revenue were expected to come in under earlier projections. Neither was there mention of a possible 2007 shortfall at the Council meeting of October 9 in which the County Executive spoke about the 2008 budget. On the contrary, the Executive addressed the impending sale of tax liens and noted "we are accepting bids for this tax sale until November 2, and we anticipate the successful bidder may pay the county in excess of \$20 million for these delinquent taxes. I believe this is a great opportunity for an additional one-time revenue and I urge you to support the authorizing legislation." In fact, Council did authorize the requested tax lien sale in Bill 3448-07 on November 20. It was signed by the Executive on November 27.

This is a quite different story compared to the County Manager's assertion in a January 17 news account in which he stated that all Council members had been briefed that the tax lien sale would yield about \$15 million and be short of covering the \$35 million deficit in the 2007 budget. However, there is no mention or discussion of such a tax lien sale shortfall (the original budget forecast called for \$22 million) in any meeting minutes of the Budget and Finance Committee or Council session. Indeed, Bill 3448-07, which authorized County officials to proceed with the sale, contains no mention of the amount of revenue the sale was expected to bring in, leaving the clear impression that earlier forecasts were still valid.

Moreover, a timeline of events suggests that either the deficit was not expected, contrary to the County Manager's claims, or was completely glossed over by Council and the

Chief Executive. The evidence lies in a resolution to reopen the 2007 budget (Bill no. 3479-07) referred to the Budget and Finance Committee on October 23. The resolution amends the budget to permit the expenditure of unexpected windfall revenues of \$9 million above budget projections with \$2.2 million coming from Federal sources, \$800,000 from sales taxes, and \$6 million from an upward revised estimate of tax lien sales revenue. As stated in the Resolution Summary of Funding, “The portfolio of tax receivables...is larger than initially estimated. The 2007 Adopted Budget for Real Estate Liened Tax Revenue is \$21,957,000. Based on the portfolio size and the initial bid amounts received, \$6,000,000 of additional revenue is available.”

As a result of Council’s adopting Bill no. 3479-07 on November 20, the 2007 budget appropriations were officially enlarged from \$708.5 million to \$717.5 million. Clearly, the first question has to be: If a deficit approaching \$20 million for 2007 was possible or even contemplated, why was the 2007 budget reopened to appropriate \$6.8 million of unforeseen sales tax receipts and tax lien revenue? Any windfall revenue should have been held in reserve against potential problems that might arise later. Simple prudence should have dictated the latter course.

The County Manager now claims that if the state hadn’t come up with the gaming fund money, the administration would have had to tap into the meager fund balance which stands at about \$17 million. Obviously, with a fund balance at that low level, any revenue higher than budget forecasts should be saved and not spent.

The resolution to amend the 2007 budget was sent to Council by the County Manager with a cover letter dated October 18, and was subsequently referred to the Budget and Finance Committee on October 23. The Committee approved the budget amending legislation at its November 15 meeting and returned it to the Council where it was passed with no discussion on November 20. The bill (3479-07) was signed by the Chief Executive on November 27.

Assuming the additional appropriations were spent—we don’t know for sure if that happened or not—then it is reasonable to surmise that as of the end of November, members of Council and the administration had no inkling of the impending 2007 deficit. And by extension they must have still believed the \$6 million windfall from tax lien sales was going to happen.

On the other hand, if officials knew or suspected there would be a tax lien sale shortfall or knew the state might come through with gaming money to fill the gap, they chose not to discuss either until after the 2008 budget and the new drink and car rental tax were enacted. In fact, receiving the state money was never mentioned publicly as a possibility until well after it actually arrived.

It appears that based on information from the County that the actual tax lien sales revenue was only \$14.35 million and the funds were received on December 21. This figure is certainly well short of the \$28 million that the Summary of Funding statement for Bill 3479-07 would have led one to believe was coming.

So a reasonable question would be: When did County officials reach agreement on the \$14.35 million tax lien sale? The Budget and Finance Committee met on November 27 and 29 (the first meetings after the signing of the resolution), but there was no mention of a shortfall in tax lien sales at those meetings. The Committee met just one more time in 2007 on December 13. Minutes of that meeting do not mention a problem with tax lien sales and since the meeting only lasted 25 minutes, it is highly unlikely that such an important crisis creating development could have been thoroughly presented and discussed.

The Executive Committee meeting scheduled for December 18 was canceled and the December 18 Council meeting verbatim minutes contain no mention of a large impending deficit in the 2007 budget or a major shortfall in tax lien sales revenue. Given the importance of such a development and the fact that December 18 would be the last meeting of Council for the year, if the problem was known about, it should have been addressed at that meeting. If the transaction was not completed until after that meeting, Council members should have been notified immediately and perhaps called to a special session to deal with the substantial revenue shortfall.

In sum, what we have, at a minimum, is an irresponsible request for, and authorization of, an expenditure of presumed windfall funds in advance of actually acquiring those funds, which, in reality, failed to materialize. To make matters worse, Council was not apprised of the possibility that fund balance reserves would have to be spent or of the County's efforts to get gaming money that was legislatively mandated to go to the airport. Certainly, there could have been no expectation of the \$19.9 million, which was well in excess of any planned annual airport allocation. And according to the Airport Authority's 2008 budget, the gaming fund distribution was not expected earlier than 2009.

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